

**REPORT ON EXAMINATION**

**OF THE**

**MELLON LIFE INSURANCE COMPANY**

**AS OF**

**DECEMBER 31, 2005**

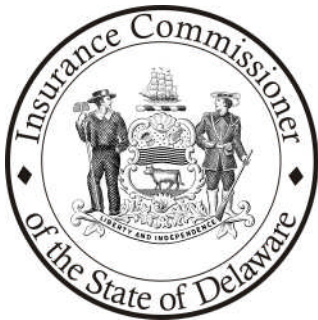
I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2005 of the

**MELLON LIFE INSURANCE COMPANY**

is a true and correct copy of the document filed with this Department.

ATTEST BY: *Antoinette Handy*

DATE: 15 MAY 2007



*In Witness Whereof*, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 15TH DAY OF MAY 2007.

*Matthew Denn*  
Insurance Commissioner

**REPORT ON EXAMINATION**  
**OF THE**  
**MELLON LIFE INSURANCE COMPANY**  
**AS OF**  
**December 31, 2005**

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matthew Denn", written over a horizontal line.

MATTHEW DENN  
INSURANCE COMMISSIONER

DATED this 15TH Day of MAY 2007.

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March 28, 2007

Honorable Mathew Denn  
Insurance Commissioner  
State of Delaware  
841 Silver Lake Boulevard  
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 06-039, dated October 24, 2006, an examination has been made of the affairs, financial condition and management of the

**MELLON LIFE INSURANCE COMPANY**

hereinafter referred to as "Company," incorporated under the laws of the State of Delaware as a stock company with its home office located at One Mellon Bank Center, Room 2835, Pittsburgh, PA 15258. The examination was conducted at the main administrative office of the Company's reinsurer, Union Security Life Insurance Company, located at 260 Interstate North Circle, Atlanta, Georgia.

The report of such examination is submitted herewith.

**SCOPE OF EXAMINATION**

The last examination was conducted as of December 31, 2001. This examination covered the period from January 1, 2002 through December 31, 2005, and consisted of a general survey

of the Company's business policies and practices, management, any corporate matters incident thereto, a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

This report is presented on the exception basis. It is designed to set forth the facts with regard to any material adverse findings disclosed during the examination. The text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible Company officials during the course of the examination.

The general procedures of the examination followed the rules established by the Committee on Financial Condition Examiners Handbook of the National Association of Insurance Commissioners (NAIC) and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware.

In addition to items hereinafter incorporated as part of the written report, the following were examined and made part of the workpapers of this examination:

Officers, Employees & Agents Welfare  
Legal Actions  
All Assets and Liabilities Not Mentioned In This Report

## **HISTORY**

The Company was incorporated on April 25, 1980 under the laws of the State of Delaware as a stock life insurance company having perpetual existence. Its original Delaware Certificate of Authority was issued on November 25, 1980 and authorized the Company to transact the business of life and health insurance. The Company's Registered and Home Offices

are located at P. O. Box 1347, Wilmington, DE 19899. The main administrative offices are located at One Mellon Bank Center-Room 2835, Pittsburgh, PA 15258.

On December 31, 1984, the Company purchased and merged with Giraco Life Insurance Company of Phoenix, Arizona. The Company was the surviving corporation.

Until March 1997, credit life and disability business was primarily assumed from Prudential Insurance Company of America (Prudential). Since 1995, the Company has also reinsured a small block of credit life and disability business from American General Assurance Company, formerly known as US Life Credit Life Insurance Company. Effective March 1997, the Company entered into an agreement with Union Security Life Insurance Company (Union), under which Union replaced Prudential as direct writer.

Effective March 1999, Mellon Bank Corporation (Parent) agreed to sell its credit card business to Citibank (South Dakota), N.A. Credit cards that were enrolled in credit insurance through the Company were included in the conversion. Until the conversion date, the Company was obligated to perform services in accordance with and subject to the original terms of the policies, including, but not limited to, applying customer claim payments to credit card accounts. Servicing was converted from the Parent to Citibank on September 17, 1999. The Company has maintained reserves and paid benefits on claims incurred prior to the conversion date.

On March 20, 2000, the Delaware Department of Insurance approved an exemption from filing Form A, under Section 5003 in connection with the corporate reorganization and restructuring that effected a change of direct ownership of the Company from MBC Investments Corporation to Mellon Leasing Corporation. The ultimate parent remains the same, Mellon Financial Corporation

## **CAPITALIZATION**

The Company's Certificate of Incorporation authorized the issuance of 3,500 shares of common stock with a par value of \$100 per share. As of December 31, 2005, the Company had issued 3,500 shares of common stock, all of which are owned by Mellon Leasing Corporation, a wholly owned subsidiary of Mellon Bank Corporation, which is a wholly owned subsidiary of Mellon Financial Corporation.

## **MANAGEMENT AND CONTROL**

The Company's bylaws, adopted September 2, 1986, and most recently amended September 30, 1988, state that the business and affairs shall be managed by a Board of Directors, five in number; thereafter, the number shall be fixed by the Board, but shall not be less than three. The Directors shall be elected at the annual meeting of the stockholders and shall hold office until a successor is elected and qualified. It is not necessary for the Directors to be stockholders.

The following constitutes the Board of Directors as of December 31, 2005:

Philip K. Kocher, Chairman  
Jean C. Fletcher  
David R. Nesbit

The bylaws, as amended, state that the officers of the Company shall include a Chairman of the Board, a President, a Secretary and a Treasurer. The Board of Directors may also appoint one or more Vice Chairmen of the Board, one or more Vice Presidents, and such other officers as are from time to time desired. The following were elected by unanimous vote of the Board of

Directors at the meeting of May 23, 2005, as officers of the Company:

Phillip K. Kocher	Chairman, President and Chief Executive Officer
Jean C. Fletcher	Vice President and Assistant Secretary
Michael F. Marks	Vice President
Alex G. Sciulli	Vice President – Real Estate and Leasing
David R. Nesbit	Treasurer
Gary E. Abbs	Assistant Treasurer – Tax***
Joanne S. Huber	Assistant Treasurer – Tax***
Michele Boxberger	Secretary*
Michael J. Baker	Assistant Secretary**
Joseph P. Heiser	Assistant Secretary
Tamara A. Long	Assistant Secretary

\* Resigned effective June 23, 2005

\*\* Appointed secretary effective June 23, 2005

\*\*\* For the sole purpose of signing any and all tax returns on behalf of the Company.

#### Conflicts of Interest

The Company does have a Conflict of Interest Procedure that is handled through the Mellon Financial Corporation (the Company's ultimate parent). The procedure is completed on an annual basis for Officers and Directors and responsible employees. The interrogatory in the Annual Statement should explain that the answer "NO" in future filed Annual Statements.

### **CORPORATE RECORDS**

The bylaws and the minutes of minutes of the Board of Directors and Stockholders were reviewed for the period of the examination.

- The “Investment Meeting” minutes did not provide evidence that the Board of Directors, or a committee thereof, approved the investments transactions or ratified the actions of the investment advisor.

**It is recommended that the Company include evidence of the approval of investments for the prior quarter in the minutes of the Board of Directors or a committee thereof.**

### **HOLDING COMPANY SYSTEM**

The Company is a member of an Insurance Holding Company System. The ultimate parent of the system is the Mellon Financial Corporation, a bank holding company. The following is an organizational chart which reflects the identities and interrelationships between the Company, Parent, all affiliated insurers, and other members of the system as of December 31, 2005:

#### **MELLON FINANCIAL CORPORATION**

##### **MELLON BANK, N.A.**

##### **MELLON LEASING CORPORATION**

##### **MELLON LIFE INSURANCE COMPANY**

Copies of the “Form B Holding Registration Statements” filed with the Delaware Insurance Department, during the period under examination, were reviewed. It appears that the

Company has complied with the provisions of Regulation 13 of the Delaware Insurance Code.

### **MANAGEMENT AND SERVICE AGREEMENTS**

Effective January 1, 1996, the Company entered into a "Service Agreement" with GPW & Associates (formerly known as Watson Wyatt & Company). Under the provisions of the agreement, GPW & Associates is to perform regular services that include maintenance of the books and ledgers of the Company; preparation of the annual statutory statement that is filed with the Delaware Department of Insurance and the NAIC; preparation of the federal income tax return of the Company that is used in the consolidated return of the parent; preparation of the first, second, and third quarter statutory financial statements, that are filed with the Delaware Department of Insurance and the NAIC; and preparation of monthly GAAP and statutory financial statements. Additional services may be provided upon request of the Company.

Effective March 15, 1997, the Company entered into a "Service Agreement" with Union Security Life Insurance Company (Union). Under the provisions of the agreement, Union shall establish the Company's policy reserves for credit life insurance and unearned premium reserves for credit accident and health insurance; provide information and render assistance in connection with periodic examinations of the Company by independent auditors; and make available upon request, its expertise in underwriting, training, marketing, policy forms design, actuarial matters and data processing

The Company files a consolidated federal income tax return with its parent under a written Tax Allocation Policy and Tax Sharing Agreement, effective for all tax periods beginning after December 31, 1992, whereby the federal income tax provision is computed on a separate return basis.

The Company's investments are held by an affiliated company, Mellon Bank, N.A. under a written investment management and custodial agreement. Under this agreement, Mellon Bank is to manage all assets in accordance with the written instructions of the Company and to continuously review the suitability of the assets and make recommendations regarding any changes in investments. Under this agreement, Mellon Bank is allowed to charge reasonable fees for these services. The Company paid investment service fees to Mellon Bank of \$18,541 and \$25,266 during the years ended December 31, 2005 and 2004, respectively.

The Company entered into an Investment Management Agreement with Standish Mellon Advisors, Inc. (Standish Mellon). Standish Mellon shall supervise and direct, in its sole discretion, based on written investment guidelines provided by the Company, the investments without further consultation with the Company. This appointment includes the appointment of Standish Mellon as agent and attorney-in-fact with full and exclusive power and authority for and on behalf of the Company's Account (a) to buy, sell, exchange, convert and otherwise trade in any and all municipal, corporate, mortgaged-backed, U.S. Government debt securities as well as CDs and commercial paper, equities, mutual funds including no-load money market funds and (b) to establish, maintain and deal through accounts with one or more securities brokerage firms as Standish Mellon may select. The Company paid Standish Mellon \$37,779 and \$56,617 during the years ended December 31, 2005 and 2004 respectively.

### **TERRITORY AND PLAN OF OPERATION**

#### **Territory:**

The Company is licensed to do business in the State of Delaware only.

**Plan of Operation:**

During the examination period, the Company did not write direct business. The Company limits its business to the assumption of credit life and accident and health insurance from non-affiliated insurers who provide coverage for Mellon Bank loan and credit card customers.

Effective March 23, 1999, the parent company agreed to sell its credit card business, including its credit card accounts to Citibank (South Dakota), N.A. See section titled “History” for a more detailed discussion.

**GROWTH OF COMPANY**

The following information was obtained from the Company’s filed Annual Statements:

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus</u>	<u>Premiums</u>	<u>Net Income</u>
2005	\$ 26,636,520	\$ 19,298,337	\$ 325,858	\$ 1,911,251
2004	\$ 29,380,803	\$ 16,431,034	\$ 142,439	\$ 1,110,846
2003	\$ 52,485,966	\$ 35,121,097	\$ (852,356)	\$ 5,054,645
2002	\$ 51,801,005	\$ 26,422,670	\$ (1,257,913)	\$ 5,292,798
2001	\$ 58,726,520	\$ 25,776,200	\$ 2,616,020	\$ 4,822,555

All of the Company’s listed growth factors have declined during the period covered by this examination as indicated below:

- A 55% decrease in admitted assets
- A 25% decrease in surplus
- A 88% decrease in premiums
- A 60% decrease in net income

The following factors contributed to the Company’s decline in the listed growth factors:

- The major factor contributing to the decrease in assets is the \$20,000,000 dividend paid by the Company in 2004. The dividend payment was also the major factor

affecting the decline in surplus.

- The Company's decline in premiums and net income was a direct result of the Company not writing or assuming any new business during the period covered by this examination. The decline in premiums is directly attributed to the sale of the Mid-Atlantic Region consumer, small business and certain middle market banking operations. Mellon Bank was the sole provider of business that ultimately generated the premium.

### **REINSURANCE**

Following is a summary of the various reinsurance contracts in place as of December 31, 2005:

#### **ASSUMED**

Type of Contract	Effective Date	Line of Business	Limits
100% Quota Share Reinsurance Agreement	3/15/97	Credit life and credit accident and health	No Limits
100% Quota Share Reinsurance Agreements	1/1/95	Credit life and credit accident and health	\$10,000 any one life

Following are more descriptive narratives, including comments and recommendations, related to the information summarized above.

The Company assumes 100% of the credit life and accident and health insurance written or assumed by Union Security Life Insurance Company in connection with consumer loans made through Mellon Bank N.A. Prior to 1997, this business was written by The Prudential Insurance

Company of America. Effective July 1, 1997, Union Security through novation, assumed, as its direct obligation, all insurance risk under the policies previously written by Prudential and assumed by the Company.

On September 1, 1995, under reinsurance agreements with American General Assurance Company (formerly known as US Life Credit Life Insurance Company), and its affiliated companies, United States Life Insurance Company of New York and All American Life Insurance Company, the Company assumed all credit life and credit accident and health business related to Mellon Bank credit cards, retroactive to business in force as of January 1, 1995. The maximum risk on any one life was limited to \$10,000.

As of December 31, 2005, the Company had assets held in trust under reinsurance treaty trust agreements of \$11,794,057 to ensure its performance under these reinsurance agreements as properly disclosed in the General Interrogatories of the 2005 Annual Statement.

### **FIDELITY BONDS AND OTHER INSURANCE**

The Company was insured as a subsidiary under a Crime & Liability Policy for Financial Institutions issued in the name of its Parent. The limits of liability, as of the examination date, were within NAIC established guidelines. Insuring agreements included: fidelity, on premises, in transit, forgery or alteration, securities, counterfeit currency, fraudulent mortgages and computer systems.

### **ACCOUNTS AND RECORDS**

The accounts and records reviewed included an evaluation of the Company's operational and organizational controls. The areas evaluated included computer systems, accounting

systems, organizational structure, and the processing structure.

The Company contracts with an outside accounting and actuarial consulting company to maintain its accounting records. See detailed discussion of this agreement under the section entitled "Management and Service Agreements."

During the examination, the Company's books and records were reviewed and compared to reported items and values in the Annual Statements. Trial balances for each of the three years under review were traced to copies of the Company's Annual Statements.

### **NAIC RATIOS**

The Company's 2005 NAIC Financial Ratios from the Insurance Regulatory Information System (IRIS Ratios) were reviewed and it was noted that the Company had received an unusual value for two of the twelve ratios. The two unusual values were:

- Ratio #9 – Change in Premium
- Ratio #10 – Change in Product Mix

The premium mix and product mix exceptions are attributable to decreasing refunds on the Single Premium business in runoff. As an example, the 2005 exception for premium mix is caused by the MOB Life Insurance business being offset by smaller refunds than in 2004, such that the premiums increased 268% over last year. Similarly for the product mix, since Mellon Life's MOB business is all life insurance and the credit disability refunds are declining, the product mix changed.

**FINANCIAL STATEMENTS**

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2005.

Assets  
Liabilities, Surplus and Other Funds  
Summary of Operations  
Capital and Surplus Account  
Analysis of Examination Changes

It should be noted that the various schedules and exhibits may not add to the totals shown due to rounding. Write-ups on the individual accounts in the Notes to the Financial Statements section of this report are presented on the “exception basis.” Only comments relative to adverse findings, material financial changes, or other significant regulatory concerns are noted.

## **ANALYSIS OF ASSETS**

Description	<u>Assets</u>	<u>Non admitted</u> <u>Assets</u>	<u>Net Admitted</u> <u>Assets</u>
Bonds	\$23,382,879	\$0	\$23,382,879
Cash \$94,563; cash equivalents \$1,994,618 and short-term investments \$853,011	<u>2,942,192</u>	<u>-</u>	<u>2,942,192</u>
Subtotals; cash and invested assets	<u>\$26,325,071</u>	<u>-</u>	<u>\$26,325,071</u>
Investment income due and accrued	\$174,560	-	\$174,560
course of collection (premiums and considerations)	34,139	-	34,139
Net deferred tax asset	<u>251,005</u>	<u>148,255</u>	<u>102,750</u>
Totals	<u><u>\$26,784,775</u></u>	<u><u>\$148,255</u></u>	<u><u>\$26,636,520</u></u>

## **LIABILITIES, SURPLUS, AND OTHER FUNDS**

Aggregate reserve for life contracts	\$5,269,222
Aggregate reserve for accident and health contracts	566,319
Life (contract claims)	392,829
Accident and health (contract claims)	201,997
Interest maintenance reserve (contract liabilities not included elsewhere)	211,017
Commissions and expense allowances payable on reinsurance assumed	12,883
General expenses due or accrued	13,500
Current federal and foreign income taxes	237,413
Asset valuation reserve	38,063
Payable to parent; subsidiaries and affiliates	<u>44,941</u>
Total liabilities	<u>\$6,988,183</u>
Common capital stock	350,000
Gross paid in and contributed surplus	12,238,822
Unassigned funds (surplus)	<u>7,059,515</u>
Surplus	<u>\$ 19,298,337</u>
Total Capital and Surplus	<u><u>\$26,636,520</u></u>

**SUMMARY OF OPERATIONS****As of December 31, 2005**

Premiums and annuity considerations for life and accident and health contracts	\$325,858
Net investment income	1,083,044
Amortization of Interest Maintenance Reserve (IMR)	<u>79,952</u>
Totals	\$1,488,854
Death benefits	1,076,037
Disability benefits and benefits under accident and health contracts	233,341
Increase in aggregate reserves for life and accident and health contracts	<u>(2,881,087)</u>
Totals	(\$1,571,709)
Commissions and expense allowances on reinsurance assumed	130,830
General insurance expenses	145,891
Insurance taxes; licenses and fees; excluding federal income taxes	<u>11,310</u>
Totals	(\$1,283,678)
Net gain from operations before dividends to policyholders and federal income taxes	2,772,532
Dividends to policyholders	0
Net gain from operations after dividends to policyholders and before federal income taxes	2,772,532
Federal and foreign income taxes incurred (excluding tax on capital gains)	<u>861,281</u>
Net income (net gain from operations after dividends to policyholders plus net realized capital gains or (losses))	<u><u>\$1,911,251</u></u>

**CAPITAL AND SUPLUS ACCOUNT**  
**December 31, 2004 to December 31, 2005**

Capital and surplus, December 31, 2004	\$16,781,034
Net income	1,911,251
Change in net unrealized capital gains or (losses)	0
Change in net unrealized foreign exchange capital gain (loss)	0
Change in net deferred income tax	(108,010)
Change in nonadmitted assets and related items	99,494
Change in asset valuation reserve	(10,095)
Dividends to stockholders	0
Aggregate write-ins for gains and losses in surplus	974,662
Net change in capital and surplus for the year	<u>\$2,867,302</u>
Capital and surplus, December 31, 2005	<u><u>\$19,648,337</u></u>

**ANALYSIS OF EXAMINATION CHANGES**

No examination adjustments were made.

## **NOTES TO THE FINANCIAL STATEMENTS**

There are no notes to the financial statements.

## **COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

There were no recommendations in the prior examination.

## **SUMMARY OF RECOMMENDATIONS**

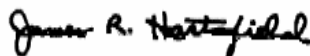
**1. It is recommended that the Company include evidence of the approval of investments for the prior quarter in the minutes of the Board of Directors or a committee thereof.**  
(Corporate Records, Page 6)

## **CONCLUSION**

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

<b><u>Description</u></b>	<b><u>December 31, 2005</u></b>	<b><u>December 31, 2001</u></b>	<b><u>Decrease</u></b>
Assets	\$26,636,520	\$58,726,521	(\$32,090,001)
Liabilities	6,988,183	32,600,321	(25,612,138)
Capital and Surplus	19,648,337	26,126,200	(6,477,863)

Respectfully submitted,



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James R. Hartsfield, CFE  
Examiner-In-Charge  
State of Delaware